

Message Text

LIMITED OFFICIAL USE

PAGE 01 COLOMB 02365 211236Z

44

ACTION NEA-09

INFO OCT-01 ISO-00 OPR-02 A-01 FS-01 TRSE-00 ABF-01 NEAE-00

/015 W

----- 006390

P 211144Z AUG 74

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC PRIORITY 1508

LIMITED OFFICIAL USE COLOMBO 2365

E.O. 11652 N/A

TAGS: AFIN, CE

SUBJ: ACCOMMODATION EXCHANGE RATE

REF: STATE 170331; STATE 175310

1. SUMMARY: EMBASSY FORESEES \$50,000 LOSS TO
BALANCE OF PAYMENTS; \$40,000 TO \$50,000 INCREASE IN
BUDGET COSTS, AND INFLATION LOSSES IN RUPEE BALANCES
IF FEEC RATE IS DISCONTINUED FOR ACCOMMODATION
EXCHANGE. EMBASSY THEREFORE REQUESTS FEEC RATE BE
MAINTAINED FOR ITS PERSONNEL AS WELL AS TOURISTS.
END SUMMARY.

2. INFORMATION REQUESTED STATE 175310 IS AS
FOLLOWS:

A. DOLLAR ACCOMMODATION EXCHANGE PROJECTED
FOR FY 75 IF FEEC RATE CONTINUED IS \$320,000.
PROJECTED DOLLAR VOLUME AT OFFICIAL RATE FOR FY
75 WOULD BE CONSIDERABLY? LESS, POSSIBLY AS LOW AS
\$160,000.

B. ANNUAL INFLATION RATE OVER NEXT FIVE
YEARS FOR ELEMENTS AFFECTING EMBASSY'S FINANCIAL
OPERATIONS IS ESTIMATED AT 10 TO 15 PERCENT.

C. DEVALUATION DURING NEXT FEW YEARS IS
GOOD POSSIBILITY BECAUSE FRI LANKA RUPEE MAY WELL
BE DISCONNECTED FROM ITS TRADITIONAL ASSOCIATION
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 COLOMB 02365 211236Z

WITH POUND AND PEGGED TO ANOTHER SOUTH ASIA

CURRENCY MORE NEARLY REPRESENTATIVE OF ECONOMIC REALITY IN THIS COUNTRY. IF SUCH DE-LINKAGE OCCURS, WE FORESEE DEVALUATION OF ROUGHLY FIVE TO TEN PERCENT ANNUALLY.

D. TOTAL RUPEE NEEDS FOR FY75 ARE ESTIMATED AT RS. 9,200,000, CONSISTING OF 6,200,000 FOR MISSION OPERATIONS, 2,400,000 FOR ACCOMMODATION EXCHANGE (AT FEEC RATE), AND 600,000 FOR SPECIAL FOREIGN CURRENCY PROGRAMS.

E. AT PRESENT TIME OFFICIAL EXCHANGE RATE IS 6.6322 AND FEEC RATE IS 10.94 RUPEES TO ONE U.S. DOLLAR.

3. UNDER GSL REGULATIONS, MOST EXCHANGE TRANSACTIONS OF PERSONAL NATURE ARE HANDLED AT FEEC RATE. LOCAL CITIZENS CONVERTING RUPEES TO DOLLARS MUST PAY FEEC'S. GREAT MAJORITY OF FOREIGN VISITORS--ALL TOURISTS AND MANY FOREIGN BUSINESS MEN AND VOLUNTARY AGENCY PERSONNEL NOT PERMANENT RESIDENTS OF SRI LANKA--ARE EXTENDED PRIVILEGE OF CONVERTING AT PREFERENTIAL RATE; EXAMPLES ARE AMERICAN CARE PERSONNEL AND CANADIAN STAFF OF SINHARAJAH FOREST LOGGING PROJECT. SIMILARLY, USG PERSONNEL ON TDY RECEIVE FEEC RATE AT BANKS AND QTELS. GSL DENIES PRIVILEGE TO DIPLOMATIC PERSONNEL ASSIGNED TO SRI LANKA, HOWEVER, IN ORDER TO MAINTAIN VALIDITY OF DISTINCTION BETWEEN OFFICIAL RATE AND FEEC RATE. AT SAME TIME, GSL IS ANXIOUS TO ENCOURAGE DIRECT USE OF FOREIGN EXCHANGE FOR GOODS AND SOME SERVICES. IT IS COMMON KNOWLEDGE THAT STAFF MEMBERS OF OTHER DIPLOMATIC MISSIONS HERE ARE ABLE TO MEET BY VARIOUS LEGAL AND QUASI-LEGAL MEANS A LARGE PERCENTAGE OF THEIR RUPEE NEEDS AT HIGHER RATE.

4. AFTER EXHAUSTIVE STUDY, EMBASSY BELIEVES RETENTION OF FEEC RATE FOR OUR ACCOMMODATION EXCHANGE PURPOSES CAN BE JUSTIFIED ON BASIS OF BALANCE OF PAYMENTS BENEFITS AND BUDGETARY SAVINGS. RE BALANCE OF PAYMENTS, AS WASHINGTON WILL APPRECIATE, EMBASSY LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 COLOMB 02365 211236Z

CAN PROVIDE NO HARD FIGURES SINCE WE WOULD BE FACING NEW SITUATION. REQUIREMENT THAT US EMPLOYEES EXCHANGE DOLLARS FOR RUPEES AT EMBASSY WOULD CONTINUE TO BE ENFORCED. IT IS FACT, HOWEVER, THAT SOME LOCAL BUSINESSMEN AND TRADERS ARE EXTENDED FEEC RATE BY CENTRAL BANK FOR ALL FOREIGN EXCHANGE RECEIVED. THEY THEREFORE ARE HAPPY TO ACCEPT PAYMENT FOR GOODS IN DOLLARS ON BASIS FEEC RATE. WE CANNOT NOW

ESTIMATE EXTENT TO WHICH LOCAL BUSINESSES AND BANKS WOULD ACCEPT PERSONAL DOLLAR CHECKS; WE KNOW THAT AT LEAST ONE LARGE LOCAL BANK ACCEPTS PERSONAL CHECKS FROM USG PERSONNEL FOR DOLLAR TRAVELERS CHECKS, AS AMERICAN EXPRESS DOES ALSO FOR ITS CARD-HOLDERS. FURTHER, ONCE LOCAL BUSINESSMEN AND TRADESMEN DISCOVER HITHERTO UNTAPPED SOURCE OF FOREIGN EXCHANGE, MANY OF THEM MAY WELL MODIFY ANY PRESENT ADVERSE ATTITUDE TOWARD ACCEPTING PERSONAL CHECKS DRAWN AGAINST US BANKS BY RESIDENT DIPLOMATIC PERSONNEL. IT SHOULD BE NOTED THAT MANY BUSINESSMEN ARE SEEKING MEANS OF SENDING PRIVATE FUNDS TO FOREIGN REPOSITORIES. AGAIN, WHILE US EMPLOYEES WILL USE EMBASSYS ACCOMMODATION EXCHANGE FACILITY FOR NORMAL RUPEE NEEDS, SHORTAGE OF FOREIGN EXCHANGE IN CEYLON WILL ENCOURAGE ACCEPTANCE OF DOLLAR CHECKS AND TRAVELERS CHECKS FOR MANY PURCHASES OF DURABLE GOODS, PARTICULARLY WHEN PERSONNEL ARE ON TRIPS OUT OF COLOMBO OR DURING WEEKENDS. UNDER THESE CIRCUMSTANCES AND BECAUSE CEYLON IS FERTILE FIELD FOR ACQUISITION OF LOW-PRICED ANTIQUES AND OTHER ITEMS, WE CAN EXPECT THAT CONSIDERABLE NUMBER OF DOLLARS WOULD FIND THEIR WAY INTO LOCAL MARKET. IF RUPEES ARE NOT AVAILABLE AT FEEC RATE, PERSONNEL WILL ALSO TEND TO SPEND DOLLARS IN OTHER COUNTRIES OF REGION WHERE MORE VALUE CAN BE GOTTEN FOR THEIR MONEY.

5. LAST YEARS ACCOMMODATION EXCHANGE WAS APPROXIMATELY \$232,000. THIS FIGURE IS CONSIDERABLY, HIGHER THAN SUM TOTAL OF NECESSARY EXPENSES OF LIVING IN COLOMBO AND GIVES INDICATION OF AMOUNT SPENT EITHER ON TRAVEL OR FOR PERSONAL ACQUISITIONS. WE HAVE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 COLOMB 02365 211236Z

ESTIMATED THAT AT FEEC RATE ACCOMMODATION EXCHANGE FOR FY 75 WOULD BE APPROX SAME AS IN FY 74. IF ONLY ONE-FOURTH THIS SUM WERE DISTRIBUTED FROM USG CHANNEL THROUGH LEGAL MEANS (FOR EXAMPLE, USE OF AMERICAN EXPRESS CARD), IT WOULD REPRESENT NET LOSS TO BALANCE OF PAYMENTS OF MORE THAN \$50,000 A YEAR. ALTHOUGH FOR UNDERSTANDABLE REASONS WE HAVE NO BACK-UP FIGURES AT THIS TIME, WE THINK \$50,000 IS REASONABLE ASSUMPTION.

6. ON BUDGET SIDE, LOSS OF FEEC RATE WOULD REQUIRE INSTITUTION OF POST ALLOWANCE. DEPT INFORMED EMBASSY IN APRIL THAT ON BASIS OF TWO YEAR OLD COST OF LIVING REPORT DEPT COULD INSTITUTE CLASS II ALLOWANCE. SINCE THAT TIME WE HAVE SUBMITTED UP-TO-

DATE INFORMATION WHICH SHOULD PERMIT HIGHER ALLOWANCE. FOREIGN SERVICE INSPECTORS, DURING VISIT LATE APRIL AND EARLY MAY, THOUGHT IT WOULD BE NECESSARY TO SET ALLOWANCE AT CLASS V IN ORDER APPROACH PARITY. BUDGET INCREASES WOULD ALSO BE NECESSARY TO MAKE UP FOR HIGHER EDUCATION ALLOWANCE, SINCE THE OVERSEA CHILDRENS CHOOOL BILLS IN RUPEES. ADDITIONALLY, INCREASES WOULD BE REQUIRED FOR IN-COUNTRY TRAVEL, ORE, AND ANY OTHER RUPEE COSTS REIMBURSED TO INDIVIDUAL. REPRESENTATION ALLOWANCE WOULD BECOME EVEN MORE INADEQUATE. GIVEN STATUTORY LIMITATIONS ON REPRESENTATION FUNDS, IT IS DOUBTFUL DEPT COULD MAKE UP 65-PERCENT LOSS IN PURCHASING POWER OF LARGE PART OF POST REPRESENTATION ACCOUNT. WHILE REPRESENTATION IS PAID BY INDIVIDUAL, IT IS LEGITIMATE EXPENSE ON BEHALF USG AND THEREFORE SHOULD BE CONSIDRED IN BUDGETARY CALCULATION EVEN IF NO INCREASE IS FORTH-COMING.

7. WE ESTIMATE REQUIRED ANNUAL BUDGET INCREASES WOULD BE APPROX AS FOLLOWS:

POST ALLOWANCE (AT CLASS II) (ASTERISK) \$33,300
 EDUCATION ALLOWANCE 3,000
 IN-COUNTRY TRAVEL 3,400
 LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 COLOMB 02365 211236Z

ORE 2,800
 REPRESENTATION LOSS \$ 2,500
 TOTAL \$ 45,000

(ASTERISK) COLA FOR MILITARY PERSONNEL HAS NOT BEEN INCLUDED.
 \$3,000-\$5,000 WOULD BE NECESSARY FROM DOD.

8. USG-OWNED SRI LANKA RUPEES ARE NOT DOLLAR CONVERTIBLE AT FUTURE DATE AND DO NOT BELONG TO USG AGENCIES OTHER THAN AID. CONTINUATION OF ACCOMMODATION EXCHANGE AT FEEC RATE WOULD THEREFORE NOT RESULT IN MISPLACEMENT OF EXPENDITURES WITHIN FEDERAL BUDGET. VALUE OF THESE RUPEES TO USG WILL BE ENHANCED TO EXTENT MORE DOLLARS ARE RECEIVED IN NEAR TERM THAN WILL BE REALIZED IN FUTURE AT DEVALUED OR "INFLATION - LOSS" RATES. EMBASSY PROJECTS THAT BY END NEXT CALENDAT YEAR (1975) WE WILL HAVE BALANCE OF AT LEAST 5,000,000 RUPEES. THIS BALANCE (ASSUMING 10-PERCENT INFLATION) IS EXPECTED TO GROW TO MAXIMUM OF APPROXIMATELY RS. 7,500,000 BY 1977.

9. WE BELIEVE INFLATION LOSSES, POSSIBLE \$50,000 DENT IN BALANCE OF PAYMENTS, AND NECESSARY BUDGETARY

INCREASE OF \$40,000 TO \$50,000 OR MORE SHOW THAT
DISCONTINUATION FEEC RATE WOULD NOT RESULT IN
DEMONSTRABLE BENEFIT TO USG BUT WOULD MEAN ACTUAL
LOSS TO IT.

10. LOSS OF FEEC RATE WOULD ALSO HAVE CONSIDERABLE
BAD EFFECT ON POST MORALE. MORALE WOULD SUFFER
FURTHER IF EMBASSY WERE TO RESTORE ACCOMMODATION
EXCHANGE AT PREFERENTIAL RATE TO TOURISTS AND OUR
OWN TDY PERSONNEL WHILE DENYING IT TO THOSE
PERMANENTLY STATIONED AT THIS HARDSHIP POST.
COMPOUNDING INEQUITY WOULD BE APPEARANCE OF PROFIT-
MAKING BY USG; THAT IS, SINCE LARGE PORTION OF
RUPEES ARE OBTAINED BY LOAN REPAYMENTS AT FEEC RATE,
ACCOMMODATION EXCHANGE SALES AT OFFICIAL RATE WOULD
SEEM TO MANY EMPLOYEES AN "UNEARNED" GAIN OR PROFIT
TO USG AT EXPENSE OF EMPLOYEE.

11. FOR FOREGOING REASONS, EMBASSY REQUESTS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 06 COLOMB 02365 211236Z

CONTINUING USE OF FEEC RATE FOR ACCOMMODATION
EXCHANGE FOR EMBASSY PERSONNEL AS WELL AS TOURISTS.
WE ARE CONVINCED SUCH COURSE IS IN BEST INTERESTS
OF U.S. GOVERNMENT.
VAN HOLLEN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 21 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974COLOMB02365
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740230-0418
From: COLOMBO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740831/aaaabaag.tel
Line Count: 253
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 170331; STATE 175310
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 23 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 AUG 2002 by izenbei0>; APPROVED <26 FEB 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ACCOMMODATION EXCHANGE RATE
TAGS: AFIN, CE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005